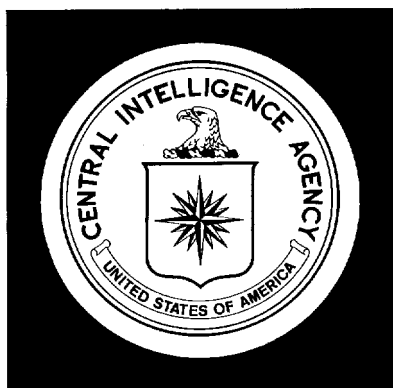


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SYRIA-ISRAEL: Large-scale movements of Israeli and Syrian forces apparently have occurred along the Syrian front over the past few days.

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Substantial Israeli and Syrian forces are already stationed in the areas of the reported movements, and it is not known whether the sightings represent a redeployment of forces there or an augmentation of them.

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WESTERN EUROPE: Frustration over Western Europe's inability to deal effectively with the oil crisis appears to be reinforcing a belief that the US is benefiting from the oil shortage at the expense of other industrial nations. Some responsible circles are even charging that the US may be promoting the shortage. Secretary Kissinger's proposal that the industrialized nations cooperate in developing alternative sources of energy may allay some of these suspicions.

Speaking at a meeting of the SPD party leadership on December 7, West German Finance Minister Schmidt reviewed the impact of projected oil cutbacks and concluded that one result will be the decline of the economic and political power of Europe relative to both the US and the Soviet Union. Schmidt cited the relative improvement of the dollar's position against European currencies as a restraining influence on the drive for international monetary reform.

Sweden's central bank governor, Krister Wickman, in an interview published on December 13, also referred to the strengthened US international position as a result of the oil crisis. He specifically mentioned both increased profits of US oil companies and growing Arab investments in the US as factors beneficial to the US.

In Italy, the leftist press has been highlighting the alleged benefits accruing to the US as a result of the oil crisis. This campaign has had the support recently of some serious economic journals and prominent business figures, who maintain that the US is engaged in a conspiracy to throttle competition and paralyze the European economy.

The US Embassy in Tehran also reports the surfacing there this week of similar theories peddled, allegedly, by German bankers and a French official, suggesting that the conspiracy theory may be developing along a broad front.

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Official and unofficial reactions to Secretary Kissinger's proposal have ranged from enthusiastic endorsement to accusations that it was aimed at disrupting the EC summit meeting in Copenhagen. The proposal appears to have caught the Europeans off guard; most governments seem reluctant to reply to the proposal until after the summit and until Arab positions can be determined.

Initial reaction from Britain, Germany, and Canada was favorable. One French attitude was expressed in a Le Monde editorial which viewed the proposal as interference with French plans for EC-Arab cooperation. The over-all paucity of official public comment from the Europeans presumably reflects their desire to keep all options open. [REDACTED]

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WEST GERMANY - POLAND: Bonn and Warsaw edged closer to resolving bilateral problems during Polish Foreign Minister Olszowski's visit to Bonn on December 5-7. Discussions will continue at a lower level over the next several months in the expectation that agreement will be reached on a final accord before Polish party chief Gierek makes his long-awaited visit to West Germany next spring.

The current optimism in Bonn contrasts sharply with the mood only a few weeks ago. The uncertain impact of the energy crisis on the West German economy and signs of public disillusionment with Ostpolitik probably led the Poles to moderate their demands on West Germany.

Officials of both countries confirm that the Poles agreed to permit 50,000 ethnic Germans to emigrate next year. West German officials have informed the US Embassy that an additional 100,000 will be allowed to depart by 1976. The Germans regard Polish concessions on this issue as a major breakthrough.

The Poles yielded on the repatriation issue after the Germans argued that this concession was required before Bonn could justify granting long-term economic aid--a major objective of Poland. In previous talks the Poles had expressed a desire for a DM 3-billion (about \$1.2 billion) credit, but in their negotiations with Olszowski, Foreign Minister Scheel and Finance Minister Schmidt held to an offer of DM 1 billion (about \$400 million). The Germans are willing to negotiate the terms, leaving open the possibility that Bonn will provide the loans at 4 percent interest, which is less than half the current market rate in the Federal Republic.

In a related development, Economics Minister Friderichs arrived in Warsaw on December 12 to investigate possible joint German-Polish investment projects in the heavy machinery, chemical, electrical, and machine tool industries. [REDACTED]

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar continued to strengthen this week, rising to its highest average level relative to other major currencies since the devaluation last February. Growing confidence in its long-range prospects may push the dollar above the current central rates. This will test the desire of the Bundesbank and other central banks to defend these rates.

West German officials have long regarded the present central rate of 2.67 marks per dollar as appropriate for maintaining long-range stability. So far, the dollar has shown little tendency to rise above this level. If substantial upward pressures on the dollar should appear, however, the Bundesbank may find its previously stated desire to support the central rate in conflict with regional and domestic priorities, including a desire to reduce the impact of the oil crisis on the domestic economy. An attempt to manage the mark/dollar rate, when all float currencies are weakening against the dollar, could also strain the European joint float.

JAPAN: Inflation accelerated last month, with wholesale prices rising 3.2 percent to a level 22 percent above November 1972. The energy crisis was a major factor; fuel prices went up about 10 percent from the previous month. The prices of copper and paper also rose sharply.

Tokyo's response to the worsening problem will probably be another sharp rise in the central bank discount rate this month to at least 8 percent and a more austere government budget for the fiscal year beginning April 1. Such measures are unlikely to slow the advance of prices to an acceptable rate in the coming months and could intensify the inevitable slowdown in economic activity resulting from the energy crisis.

Japan's prices rose faster in November than in any month since the Korean War, despite the deflationary impact of a record \$1.7 billion balance-of-payments deficit during the month. Long-term capital outflows doubled from the October level to more than \$1 billion, and short-term outflows increased significantly in response to the weakening of the yen. The large capital outflows more than offset a trade surplus of \$380 million. For the first 11 months of the year, the balance-of-payments deficit totaled \$9 billion. [REDACTED]

NIGERIA: Lagos is profiting from the oil crisis. Oil company payments to the Nigerian Government in 1973 have doubled and will probably double again next year. Revenues in 1974 could reach \$5.4 billion if the government's share of the National Oil Company is increased, as is now being considered.

Refiners are willing to offer premium prices for Nigerian crude oil because it is low in sulphur, near Western markets, and embargo-free. Bids as high as \$16.80 a barrel reportedly have been received for the 300,000 barrels a day that the government is offering for sale.

A recent announcement that Iran's National Oil Company will sell its participation crude--which normally brings a lower price than Nigeria's--for \$16-17 a barrel may drive Nigeria's prices even higher. While it is not certain the Nigerian National Oil Company would obtain lower prices if it markets its entire share of Nigerian production, given the high quality of Nigerian crude, it is unlikely that the price would fall below \$10 a barrel.

Nigeria's oil production remained near capacity this year, increasing about 10 percent to 2.2 million barrels a day by the end of the year.

Nigeria is now in a much stronger position to pursue its development plans and its quest for leadership in Africa. [REDACTED]

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SYRIA: Asad's Position on the Eve of Negotiations

As the Geneva peace talks approach, President Asad's hold on power appears to be fairly firm. The war has bolstered his popularity at home, and he can probably count at present on the backing of key supporters, in many cases hand-picked, in the armed forces, the security apparatus, and the Syrian Baath Party. Equally important to him is the continuing loyalty of an elite 10,000-man special security force commanded by his brother.

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Most of the Syrian leadership, Asad included, agreed to the cease-fire only with great reluctance,

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As the peace talks drag out--as they almost certainly will--Asad is likely to have his hands full keeping a damper on Syrian jingoism, if he does not lose all patience with the Israelis himself.

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Since taking full control of the government in 1970 Asad has had to fend against the subversive activities of conservative and leftist exiles in Beirut, right-wing Baath exiles in Baghdad, and other rival claimants to power residing in Syrian jails, all of whom have some supporters in the army or the Syrian Baath Party. Perhaps even more importantly, many members of the majority Sunni Muslim sect in Syria bitterly resent the predominant position of Asad's own much smaller Alawite sect. Although Sunnis such as the minister of defense, the foreign minister, and the minister of interior hold high positions, there is still a lot of unhappiness among Sunnis about the disproportionate number of Alawites who hold influential government posts and army commands.

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FOR THE RECORD*

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Japan - South Korea : The annual ministerial conference, postponed earlier this year when Korean opposition leader Kim Tae-chung was kidnaped in Tokyo, has again been delayed. Tokyo now says the talks cannot be held until after the Diet recesses on December 26 because of domestic political considerations. [REDACTED]

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Sudan: Khartoum University students who seized control of the campus on December 10 ended their demonstration quietly on December 13 after negotiations with university officials. The students, apparently worn down by their sit-in, during which police cordoned off the campus, capitulated to the government's face-saving terms. These included reinstatement of the politically activist Students Union that was disbanded after disorders in September, and the government's agreement to consider other student grievances. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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